

Memorandum

To: Board of Selectmen
Finance Committee

From: Martha White, Town Administrator
Michael Walters Young, Deputy Town Administrator

Date: Friday, February 13, 2009

Re: FY 2010 Budget: From Submission to Gap Closure

As information has continued to be refined, we have been able to more clearly define our strategy for closing the FY 2010 budget gap. With the formal recommendation of the Financial Planning Committee voted yesterday, February 11, 2009, staff is able to provide the roadmap for closing this budget gap. This memorandum details the FY 2010 Budget process over the last six weeks, from how it was submitted to how it has been closed. To be certain, this refinement process will continue as more information becomes available.

January 1, 2009: FY 2010 Budget Submission

In accordance with Article 5 of the Charter and Article 20, Section 2 of the By-Laws, the FY 2010 Town Administrator Recommended budget was submitted to the Board of Selectmen and the Finance Committee before the first day of January, 2009. This budget was formally presented and distributed at their first budget meetings of January, (January 5th and January 6th respectively). This document complied with all aspects of the Charter and governmental industry standards for the budget as a complete financial plan, a policy document, a communications device and an operations guide. Since that date it has been available on the Town's website at www.natickma.gov.

Note that, at that point in time, the spending plan resulted in a projected deficit of \$4,722,744, with the inclusion of budget submissions from all municipal departments and the Natick Public Schools. A summary of that budget is shown below:

FY 2010 Budget as Originally Submitted: January 5, 2009

Revenues	\$102,114,519
Expenses	\$106,837,263
Balance as of 1/5/2009	(\$ 4,722,744)

January 28, 2009: FY 2010 Budget with House 1 Revision

The first major revision to the budget as proposed occurred on January 28, 2009 when the governor introduced his FY 2010 Omnibus budget for the Commonwealth (also known as House 1). Natick received good news - the State Aid reduction proposed by the Governor in House 1 was less than originally projected by staff (by about \$200,000). This impacted the budget by reducing the gap to \$4,560,667.

FY 2010 Budget after submission of House 1: January 28, 2009

Revenues	\$102,276,596
Expenses	\$106,837,263
Balance as of 1/28/2009	(\$ 4,560,667)

February 11, 2009: FY 2010 Budget with expense revisions & split determination

A second round of revisions occurred yesterday in tandem with the formal recommendation of the Financial Planning Committee. Since January 28, 2009, four additional changes can be made to the budget.

- 1) Increase in the School Budget for one (1.0) FTE transferred from the municipal side: \$68,578 has been added to the school department budget for one employee being transferred from the municipal side. That amount will be shown as offset later in this memorandum.
- 2) Decrease in Health Costs: The recommended rates of increase for Health Plans for FY 2010 from the West Suburban Health Group are going to be less than staff had forecast – an average increase of 6.9% instead of the 10% forecast.
- 3) Increase in Snow Removal Supplement: To date the Board of Selectmen and the Finance Committee have approved two overdrafts totaling \$600,000. That amount has replaced the \$325,000 amount in the original recommended budget.
- 4) Decrease in Golf Course Deficit: Although a final amount has yet to be recommended by the Board of Selectmen, a recommended amount of \$355,000 is forecast for FY 2010. Operational changes have been made which allow the subsidy to remain the same as FY 2009, and likely be reduced later in the budget season.

These three changes have made the gap lower, resulting a gap of \$4,467,305:

FY 2010 Budget: February 11, 2009

Revenues	\$102,276,596
Expenses	\$106,743,401
Balance as of 1/28/2009	(\$ 4,467,305)

This is the current amount to be split between the Municipal and School sides in order to close the FY 2010 budget.

Gap Closure: Splits, Ground Rules and Impacts

As stated previously The Financial Planning Committee met seven times through the late fall and winter for the purpose of among other things agreeing to ground rules to closing our \$4.4 million gap. A formal recommendation has been approved by that committee with a series of ground rules for both sides to use in closing their respective gaps. The following pages detail how the split works and what ground rules have been agreed to.

Methodology:

Step 1: Revenue & Expenses Reconciliation

The first of three steps in this model is to determine the amount of incremental revenue available to all operations town-wide. This is achieved by the following:

1. The allocation model starts by taking the total general fund revenues as projected by the Town Administrator as of February 11, 2009.
2. Next, the allocation model uses the FY2009 General Government and Education budgets as adopted at the Spring 2008 Annual Town Meeting.
3. Finally, the incremental revenue is determined by the following formula:

Total projected FY2010 General Fund Revenue

Less: a) FY2009 School budget as approved by the Spring ATM

b) FY2009 General Government budget as approved by the Spring ATM

c) FY2010 Shared Expenses

d) FY2010 budget for capital (\$350,000)

e) FY2010 budget for other fixed costs/assessments/etc. (\$4,135,101).

Balance allocated to the General Government and Education components based on FY2009 budget.

Step 1: Revenue & Expenses Reconciliation

Total General Fund Revenue		\$	102,276,596
Less FY 2009 Education	\$	43,474,430	
Less FY 2009 Municipal*	\$	27,056,883	
Less FY 2010 Shared**	\$	28,717,860	
Less FY 2010 Capital	\$	350,000	
Less FY 2010 Other/Reserves	\$	4,135,101	
Incremental Revenue		\$	(1,457,678)

* Includes Libraries

** Includes Keefe Tech

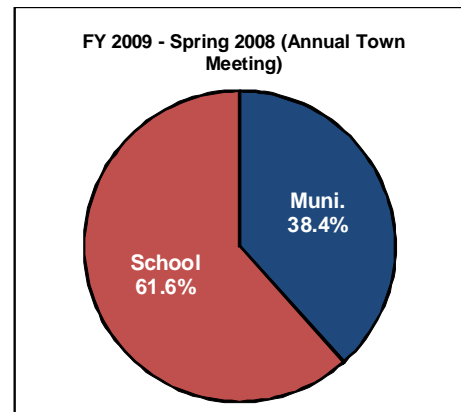
Step 2: Split

As stated above, the allocation model uses the FY2009 General Government and Education budgets as adopted at the Spring 2008 Annual Town Meeting. That split, 61.6% to the schools and 38.4% to the municipal departments, is then applied to the incremental revenue. This year, that results in an apportionment of the incremental deficit, as detailed on the following page:

Step 2: Split

FY 2009 - Spring 2008 (Annual Town Meeting)

Municipal	\$	27,056,883	38.4%
School	\$	43,474,430	61.6%
Total	\$	70,531,313	100.0%



Incremental Revenue	\$	(1,457,678)		
Municipal Split (38.4%)	\$	(559,748)	School Split (61.6%)	\$ (897,930)
Municipal Revenues for 2008	\$	(559,748)	School Revenues for 2008	\$ (897,930)

Step 3: Final Deficit Determination

The final step in the splitting process is to add to the incremental revenues each sides increase over the previous fiscal year. The added step on the municipal side is to make sure the funding is available for the transfer of one (1.0) FTE for the schools. The reconciliation below details the target deficits for each side.

Step 3: Deficit Determination

Municipal Request Increment	\$	(767,459)	School Request Increment	\$ (2,173,410)
Less Incremental Revenues	\$	(559,748)	Less Incremental Revenues	\$ (897,930)
Less Shift of 1.0 FTE to schools	\$	(68,758)	Education Deficit	\$ (3,071,340)
Municipal Deficit	\$	(1,395,966)		

Deficit as of 2/11
\$ (4,467,305)

Ground Rules: How each side agrees to closing their respective gaps

In addition to the model, the various Town departments agreed to split the gap according to the following ground rules:

1. Changes to revenues will be made to Step 1: Reconciliation as more information becomes available. This will result in either a positive or negative effect – which will be split by both sides as per the allocation model methodology.
2. If there are budget reductions made to the Shared Expense budget, these “savings” will be split according to the methodology between the General Government and Education components except under the following situation:
 - Any benefit savings resulting from personnel reductions will remain with Shared Expenses for the purpose of paying said personnel’s unemployment costs.
3. For any net new positions added in FY2010, the cost of benefits (health insurance, Medicare, workers compensation) is the responsibility of the proposing agency.

4. Any reductions in capital or other expenses will be split according to the methodology on the same prorated basis that revenues are shared.
 5. If the Board of Selectmen or School Committee increases a specific fee-for-service in FY2010 that is greater than the fee or charge in FY2009, with the exception of fees for trash bags, those revenues will remain with the respective General Government or Education budget and reduce any budget shortfall on a dollar-for-dollar basis.
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Today: How the budget is to be balanced:

From these amounts, both the schools and the municipal departments have been able to proceed with submitting reduced budgets. The Municipal side has taken its \$1,395,966 target and has attempted to provide a sustainable level of services going forward while maintaining services for all citizens; administration is in the process of examining each department budget for reductions. As a general rule, smaller departments (Selectmen, Health, Community Development, Council on Aging, Town Clerk, Finance, Recreation, IT) will be forced to reduce their budgets by at least 2% while larger departments (Public Works, Public Safety, Libraries) will be forced to reduce their budgets by at least 6.5%. In addition, many smaller (and larger) departments that have existing vacancies in positions will lose these positions through attrition.

Although the Municipal split amount is only \$1,395,966, we have provided for over \$1,570,000 in reductions in order to accommodate anticipated unemployment costs associated with layoffs.

A summary of detailed reductions is provided on the following page:

Municipal Reductions

<u>Municipal Department</u>	<u>2010 Requested</u>	<u>2010 Revised</u>	<u>Difference</u>	<u>Key Reasons</u>	<u>Potential Staff Reduction</u>
Morse Inst. Library	\$ 1,858,422	\$ 1,737,625	\$ 120,797	6.5% reduction; Eliminate Young Adult Lib. (open position)	1+ (?)
Bacon Free Library	\$ 125,147	\$ 116,976	\$ 8,171	6.5% reduction & need to reorg for Sunday hours	TBD
Emergency Management	\$ 4,100	\$ 4,100	\$ -	Level-Fund Emergency Management	N/A
Police	\$ 5,514,027	\$ 5,155,615	\$ 358,412	6.5% overall reduction	6.5 +/-
Fire	\$ 6,666,511	\$ 6,233,188	\$ 433,323	6.5% overall reduction	8 +/-
Public Works					
Admin	\$ 345,066	\$ 7,363,006	\$ 405,563	6.5% overall reduction, excluding level-funding of Municipal Energy Budget	10 +/-
Build. Maint.	\$ 894,162				
Energy	\$ 1,532,670				
Engineering	\$ 406,985				
Equipment Maint.	\$ 778,387				
Highway	\$ 3,078,655				
LF & NR	\$ 732,645				
Council on Aging	\$ 304,133	\$ 295,581	\$ 8,552	Reduction of Hours for Vol. Coor & misc. prog. Reductions	0.18
Human Services	\$ 97,746	\$ 97,396	\$ 350	Reduction of Directory Support	None
Veterans Services	\$ 182,801	\$ 232,801	\$ (50,000)	Adds Necessary PIR's for Veterans Disbursements	None
Board of Health	\$ 439,790	\$ 378,198	\$ 61,592	Eliminate Sanitarian (open position)	1
Parks & Recreation	\$ 588,697	\$ 576,923	\$ 11,774	At least 2% ; Add'l. cuts/shifts TBD	TBD
Selectmen	\$ 678,914	\$ 590,382	\$ 88,532	Eliminate HR Director (open position)	1
Legal	\$ 293,500	\$ 293,500	\$ -	Level-fund	N/A
Comptroller	\$ 307,112	\$ 300,680	\$ 6,432	2% reduction; incl. actual Comptroller salary & less bookbinding	None
Assessors	\$ 449,388	\$ 405,135	\$ 44,253	Reduce Admin. Asst. to P-T, reduce tax mapping, supplies	0.5
Collector	\$ 326,861	\$ 320,361	\$ 6,500	2% reduction; reduce travel, training & collection activities	None
Treasurer	\$ 210,447	\$ 206,247	\$ 4,200	2% reduction; reduce travel, training, repair & supply budgets	None
Information Technology	\$ 873,946	\$ 829,895	\$ 44,051	Eliminate Data-Entry Clerk	1
Town Clerk	\$ 271,289	\$ 265,789	\$ 5,500	2% reduction	None
Sealer of Weights & Measures	\$ 15,753	\$ 15,403	\$ 350	2% reduction; Elim. Training, reduce dues & repair budgets	None
Parking Clerk	\$ 128,407	\$ 126,982	\$ 1,425	Reduced collection cont., clothing allowance and repair budgets	None
Community Development	\$ 700,271	\$ 686,266	\$ 14,005	2% reduction	TBD
Committees	\$ 18,510	\$ 18,510	\$ -	Level-fund	N/A
Total	\$ 27,824,342	\$ 26,250,559	\$ 1,573,783		29.2 +/-

A summary of anticipated unemployment costs is included as an attachment. Many of these budgets have been presented to the Finance Committee for review and given to the Board of Selectmen. The largest budgets – Police, Fire and Public Works – will be presented in front of the Board of Selectmen on Monday, February 23, 2009 and available for review in front of the Finance Committee afterwards.

Budget brought to closure:

The summary below shows the progression of the FY 2010 budget since January 1 and (at a macro-level) how the budget would look as balanced.

General Fund Revenue/Expenditure Summary

	2009 Appropriated <u>A</u>	2010 1/5/2009 <u>B</u>	2010 1/28/2009 <u>C</u>	2010 2/11/2009 <u>D</u>	2010 Closure <u>E</u>	2009 vs. 2010 \$ <u>(E-A)</u>	% <u>(E/A)</u>
General Fund Revenues							
Tax Levy	73,083,995	75,827,233	75,827,233	75,827,233	75,827,233	2,743,238	3.75%
State Aid	12,341,007	11,198,590	11,360,667	11,360,667	11,360,667	-980,340	-7.94%
Estimated Receipts	10,801,500	9,231,500	9,231,500	9,231,500	9,231,500	-1,570,000	-14.54%
Other Local Receipts							
Indirects	2,546,345	2,546,345	2,546,345	2,546,345	2,546,345	0	0.00%
Free Cash	3,000,000	2,000,000	2,000,000	2,000,000	2,000,000	-1,000,000	-33.33%
Stabilization Fund	600,000	600,000	600,000	600,000	600,000	0	0.00%
Overlay Surplus	0	500,000	500,000	500,000	500,000	500,000	#DIV/0!
Other Available Funds	210,851	210,851	210,851	210,851	210,851	0	0.00%
Total General Fund Revenues	102,583,698	102,114,519	102,276,596	102,276,596	102,276,596	-307,102	-0.30%
General Fund Expenses							
Education & Learning							
Natick Public Schools	43,474,430	45,647,840	45,647,840	45,716,598	42,641,403	-833,027	-1.92%
Keefe Tech	1,141,092	1,175,325	1,175,325	1,175,325	1,175,325	34,233	3.00%
Morse Institute Library	1,780,355	1,858,422	1,858,422	1,858,422	1,737,625	-42,730	-2.40%
Bacon Free Library	116,928	125,147	125,147	125,147	116,976	48	0.04%
Public Safety	11,821,743	12,184,638	12,184,638	12,184,638	11,392,903	-428,840	-3.63%
Public Works	7,513,840	7,768,570	7,768,570	7,768,570	7,363,006	-150,834	-2.01%
Health & Human Services	1,561,166	1,613,167	1,613,167	1,613,167	1,580,899	19,733	1.26%
Administrative Support Services	4,244,340	4,255,888	4,255,888	4,255,888	4,040,640	-203,700	-4.80%
Committees	18,510	18,510	18,510	18,510	18,510	0	0.00%
Shared Expenses							
Fringe Benefits	13,372,367	14,553,280	14,553,280	14,216,160	14,397,833	1,025,466	7.67%
Prop & Liab. Insurance	496,150	496,150	496,150	496,150	496,150	0	0.00%
Retirement	5,170,376	5,271,467	5,271,467	5,271,467	5,271,467	101,091	1.96%
Debt Services	6,915,189	7,158,758	7,158,758	7,158,758	7,158,758	243,569	3.52%
Reserve Fund	400,000	400,000	400,000	400,000	400,000	0	0.00%
General Fund Oper. Expenses	98,026,487	102,527,162	102,527,162	102,258,800	97,791,495	-234,991	-0.24%
Capital Improvements	293,900	350,000	350,000	350,000	350,000	56,100	19.09%
School Bus Transportation	302,122	311,186	311,186	311,186	311,186	9,064	3.00%
State & County Assessments	1,552,943	1,622,825	1,622,825	1,622,825	1,622,825	69,882	4.50%
Cherry Sheet Offsets	68,029	71,090	71,090	71,090	71,090	3,061	4.50%
Tax Title	25,000	25,000	25,000	25,000	25,000	0	0.00%
Snow Removal Supplement	650,000	325,000	325,000	600,000	600,000	-50,000	-7.69%
Overlay	1,040,000	1,150,000	1,150,000	1,150,000	1,150,000	110,000	10.58%
Golf Course Deficit	355,000	455,000	455,000	355,000	355,000	0	0.00%
Total General Fund Expenses	102,313,481	106,837,263	106,837,263	106,743,901	102,276,596	-36,884	-0.04%
Net Excess / (Deficit)	270,217	-4,722,744	-4,560,667	-4,467,305	0		

Please let us know if you have any questions.



Town of Natick

Home of Champions

FY 2010 Budget Development

Unemployment Estimates

Original Amount Budgeted in FY 2010	\$	130,000
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School & Municipal Unemployment Estimates

Number of Employees Potentially Eligible for Unemployment ¹		45.2
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Maximum Weekly Benefit ²	\$	628
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Maximum Number of Weeks ³		52
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Total Maximum Liability	\$	1,476,051
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Estimated Budgeted Unemployment ⁴	\$	851,568
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Municipal Budget Reductions in order to accommodate U/I	\$	(181,636)
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Benefit Savings from layoffs ⁵	\$	(594,271)
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Balance to be taken from Benefits Reserve & Orig. U/I Budget ⁶	\$	75,661
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Notes:

¹ Assumes 19 layoffs in schools, 26.2 layoffs on municipal side (3 positions currently vacant NOT included)

² Does not include \$25/child/week stipend. To be determined when actual layoffs are determined.

³ Unemployment Benefits are awarded for a maximum of 30 weeks. However, Congress has authorized two extension periods for a maximum benefit time of up to 33 weeks (20 + 13), meaning the true liability for the Town can be up to 63 weeks of post-employment.

⁴ Estimated Budgeted Unemployment assumes taking 30 weeks.

⁵ Benefit Savings derived from taking an average number of benefit eligible employees and multiplying the costs for average individual and family plans for a fiscal year.

⁶ Benefits Reserve budget increased to \$100,000 from \$50,000 in FY 2010.